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C O N F I D E N T I A L SECTION 01 OF 03 BRASILIA 002348

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TREASURY FOR PARODI, STATE PLASS TO USTR AND USAID/LAC/AA

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SUBJECT: BRAZIL - CORRUPTION SCANDAL UPDATE, WEEK OF 29
AUGUST - 02 SEPTEMBER 2005

REF: A. BRASILIA 2219

[B](#). BRASILIA 2150

[C](#). BRASILIA 2082

[D](#). BRASILIA 2025

[E](#). BRASILIA 1979

[F](#). BRASILIA 1874

[G](#). BRASILIA 1973

[H](#). BRASILIA 1631

[I](#). BRASILIA 2242

[J](#). BRASILIA 2237

[K](#). BRASILIA 2305

Classified By: POLITICAL COUNSELOR DENNIS HEARNE. REASONS: 1.4
(B)(D).

[1](#)1. (SBU) SUMMARY. A joint report by the two lead congressional committees investigating Brazil's interlocking corruption scandals (refs) this week recommended the expulsion from Brazil's congress of 17 legislators on suspicion of taking bribes for votes from a PT party affiliated money man, and also cited for expulsion former minister Jose Dirceu as the likely mastermind of the scheme. Senate President Renan Calheiros ordered the three congressional committees (CPIs) involved in investigating the scandals to streamline and focus their efforts. In one committee hearing this week, the brother of Celso Daniel, a PT mayor murdered in 2002, alleged that senior Lula aide Gilberto Carvahlo and Dirceu were both involved in kickback schemes in the municipality of Santo Andre, Sao Paulo that may be linked to Daniel's killing. And Dirceu, showing his continued power within the PT, won out in an internal struggle with interim party president Tarso Genro, who announced he would not seek the party presidency in the PT's September election. END SUMMARY.

JOINT CPI REPORT ACCUSES 18 CONGRESSMEN OF CORRUPTION

[1](#)2. (U) On 1 September a joint report was released by the two Congressional Inquiry Committees (CPIs) on the Postal Service and vote-buying allegations recommending the expulsion from congress of 18 congressmen. Former cabinet minister and PT strongman Jose Dirceu is cited in the report, based on testimony and circumstantial evidence, as the probable mastermind of payoffs for votes to allied congressmen and parties. Dirceu called the accusations baseless and vowed to fight the process against him in both the congress and judicial system. The report accuses the rest of the cited legislators of actually withdrawing funds -- either personally or through staff or family proxies -- from the accounts of Marcos Valerio, the private sector money man at the center of the illicit finance scandals linked to elements of Lula's PT party (refs). The report found that evidence accumulated by investigators to date "makes it irrefutable that moneys were paid to congressmen and directors of parties integrated in the government's support base..." and that the accusations by PTB deputy Roberto Jefferson of regular PT payoffs to congressmen and allied party figures that sparked the current crisis do "correspond to facts." Chamber of Deputies President Severino Cavalcanti has yet to approve the report and forward it to the Ethics Committee, which is responsible for starting procedures against the cited congressmen. Statements by Cavalcanti earlier in the week claiming that the payoff scheme had not been proven and suggesting he would recommend mild punishment for implicated congressmen caused derisive reactions in both the media and congress, including angry calls for Cavalcanti's removal from his position on the Chamber floor by Green Party deputy Fernando Gabeira. Cavalcanti subsequently walked back from his remarks, but is still seen as inclined to slow the process and engineer a vague outcome that lets many accused legislators off the hook. On 2 September, the Chamber's Constitution and Justice Committee ordered that all expulsion motions must be voted in full plenary in the lower house, regardless of whether the Ethics Committee, Chamber presidency or other committees recommend suspension of any of the processes. The Brazilian media interpreted the order as an impediment to further efforts by Cavalcanti to manipulate the proceedings behind the scenes.

[1](#)3. (U) If found guilty, the following congressmen could be expelled from Congress and lose their right to stand for public office for eight years:

- Jose Dirceu (PT) (former minister of the civil household in Lula's cabinet)
- Sandro Mabel (PL)
- Wanderval dos Santos (PL)
- Roberto Brant (PFL)
- Roberto Jefferson (PTB) (case already under investigation by the Ethics Committee)
- Carlos "Bispo" Rodrigues (PL)
- Valdemar Costa Neto (PL) (resigned)
- Joao Magno (PT)
- Joo Paulo Cunha (PT)
- Paulo Rocha (PT)
- Romeu Queiroz (PTB)
- Professor Luizinho (PT)
- Josias Gomes (PT)
- Jose Mentor (PT)
- Jose Janene (PP)
- Pedro Correa (PP)
- Pedro Henry (PP)
- Vadao Gomes (PP)
- Jose Borba (PMDB)

COORDINATING THE CPI'S

14. (SBU) The joint report released this week recommending expulsion of the eighteen congressmen is an interim document, not a final product for either of the authoring CPIs, which are continuing their work. The joint report does represent a first effort at improved coordination among the three separate CPIs established by the Brazilian Congress to look into the interlocking scandals. The three committees have competed, as congressmen showboated for media attention and concentrated on sensational testimony, while mounds of documentary information went unassessed. For many media and political observers, the politicized and duplicative work of three committees examining intersecting issues and often the same witnesses may threaten the chances for coherent outcomes that clearly assign guilt. This week Senate Chairman Renan Calheiros called for a meeting between the CPIs' presidents and rapporteurs to coordinate agendas and divide responsibilities. As a result, the Postal Service CPI will now examine the origins of the illegal funds that were funneled to PT campaign coffers through Marcos Valerio's accounts. The CPI on bribery for votes will focus more specifically on illicit payoffs to congressmen. And the CPI on bingo games will investigate bribery and kick back schemes on contracts in PT-led municipalities in Sao Paulo, in addition to the connection of the bingo houses with money laundering, organized crime, and illegal campaign financing. How this rationalization of labor works out in practice remains to be seen.

THE GHOST OF CELSO DANIEL

15. (SBU) On 1 September, Jose Francisco Daniel, the brother of the late PT mayor of Santo Andre Celso Daniel, testified before the CPI on bingo games and municipal corruption. According to Francisco Daniel, his brother was involved in 2000-2002 in a corruption scheme to funnel payoffs on municipal contracts to PT campaign coffers, at the direction of Lula's cabinet chief Gilberto Carvalho (then a campaign officer for Lula) and former minister Jose Dirceu (then president of the PT). The mayor decided to denounce the scheme after he discovered that part of the money was being diverted for personal corruption, Francisco Daniel said. Celso Daniel produced a dossier naming names and providing evidence of other PT members' involvement, which ultimately led to his abduction and killing in 2002, according to his brother. Francisco Daniel claimed it was Carvalho himself who told him on 26 January 2002 -- six days after Celso Daniel's murder -- about the corruption scheme and Daniel's intentions to denounce it. Carvalho, according to Francisco Daniel, said that the moneys were taken to Jose Dirceu and used in the campaign of Marta Suplicy (former PT mayor of Sao Paulo) and other PT campaigns. Francisco Daniel further claimed that there were two witnesses to the conversation. Carvalho released a public statement denying all the accusations and Jose Dirceu reiterated his ongoing law suit against Francisco Daniel for slander. (Note: Sao Paulo civil police recently reopened a criminal investigation of Celso Daniel's murder, which will run concurrently with an ongoing state Public Ministry inquiry. End note.)

PT'S INTERNAL DISPUTE: DIRCEU WINS BATTLE AGAINST GENRO

16. (SBU) On 29 August, former Education Minister and interim PT president Tarso Genro announced he would not run for party presidency in the upcoming September internal elections, marking a victory for former chief of staff Jose Dirceu. Genro had advocated a major re-orientation of the party and demanded that Dirceu abandon his aspirations for party leadership (Dirceu refused). During a press conference, Genro stated that he was stepping down because "the party was

unwilling to change its ways ... we proposed a vision of breaking (with the past) and that isn't what we're seeing." Former Social Security and Labor Minister and current PT secretary general Ricardo Berzoni announced his candidacy in

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replacement of Genro's. Genro, Dirceu and Berzoini are members of the PT moderate wing (known as "the majority camp"), which steered the party toward the political center in the late 1990s but which is also now associated with the scandals rocking the PT and GOB. The internal divisions are apparently strengthening the candidacy of more leftist wings of the party, who are outraged by the corruption allegations and also critical of the GOB's fiscal austerity. A PT member and congressional staffer, in a conversation with POL FSNs, opined that the victory of Deputy Maria do Rosario, from the party's left-to-center wing, is regarded as increasingly possible in the party's September election.

17. (C) Comment. These events taken together made for a significant week in the 100 day-and-counting crisis embroiling Brazilian politics. First, the joint report by two CPIs recommending expulsion of 18 congressmen is a benchmark in the crisis, seen here as a confirmation that the vote bribery allegations are fact and that the cited congressmen and perhaps others still to be named will be held accountable. Dirceu and others will try various tactics to forestall their expulsions, but the accusation of guilt, at least in the political forum of the congress, is now formalized. Second, if the three CPIs can succeed in streamlining and improving their work, critical and still largely unanswered questions about the origins of the vast amounts of money plowed into Valerio's illicit apparatus, the breadth of the payoff schemes, and the early origins of the PT's illicit financial operations (i.e., in municipalities like Riberao Preto and Santo Andre) can be more effectively addressed. Third, the testimony of Jose Franciso Daniel brought the national spotlight back onto the scabrous case of the kidnapping, torture and murder of Celso Daniel in 2002 -- unquestionably the most hideous skeleton in the PT's closet. The danger of serious new revelations in the case that can further prejudice the image of the PT and Lula's erstwhile inner circle increases with the congressional attention, which now coincides with ongoing Public Ministry and new civil police investigations into links between the killing, kickback schemes in Santo Andre's municipal government, and PT campaigns in 2002. Finally, the defeat in PT circles this week of Tarso Genro sets the stage for a dramatic face off in the party's September elections, one that could see the implosion of the PT in its known form, with hard to predict consequences.

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